



Testimony of Lieutenant Governor Michael S. Steele

*Before the House Appropriations Committee on
HB 1001 "Divestment from the Republic of Sudan"
March 22, 2006*

Mr. Chairman and members of the Committee, I am pleased to present testimony that I feel will strengthen the intent of House Bill 1001 "Divestment from the Republic of Sudan" – sponsored by Delegate Salima Marriott.

In response to the egregious human rights violations currently occurring in the Sudan, American companies are barred from doing business with the government of that country pursuant to Executive Order dated November 3, 1997, "Blocking Sudanese Government Property and Prohibiting Transactions with Sudan" (the "Executive Order"). The Executive Order was in effect until November 3, 2005. The intent and effect of the Executive Order was restated on November 2, 2005, when, consistent with section 202(d) of the National Emergencies Act (50 U.S.C. 1622(d)), President Bush extended the national emergency in respect to the Sudan for one year.

Based on data supplied by the Maryland State Retirement and Pension System ("MSRPS"), the system holds over \$16 billion in five commingled funds, and \$9 billion in fourteen separately managed accounts, which may hold securities invested in companies engaged in business dealings with the Government of Sudan. A key element of H.B. 1001 would require the System's fiduciaries to identify and divest any situation where, as of July 1, 2006, a foreign entity is found to have an "equity tie" (business arrangements other than humanitarian aid) to the Government of the Republic of Sudan or its instrumentalities. Indeed, the merits of H.B. 1001 embody the moral fabric that makes our state the "Great Free State".

While I am aware of the seriousness of the issues raised by H.B. 1001, I am more deeply troubled by the level of investment holdings MSRPS has with companies that are engaged in businesses dealing with the Sudanese government. The current situation in Sudan can only be described as extremely grave and contrary to U.S. foreign policy and humanitarian objectives. Let's be clear: a great human cataclysm is underway in Sudan. As a state, we cannot lend "quiet" support to the hideous human rights violations and heartless genocide taking place in Sudan through the investment of our pension funds.

H.B. 1001 calls for MSRPS to divest holdings in any multi-national company having a business relationship with Sudan. The full implementation of HB 1001 could result in a contraction of the System's available opportunities for investment and an increase in future employer contributions to the trust fund. The Board's fiduciary responsibilities mandate that investment decisions be made solely in the interest of the participants in the retirement plans and for the exclusive purpose of providing retirement benefits to those participants.

As always, considerable uncertainties remain in any investment decision. I strongly feel that we cannot stand by and watch the state of Maryland silently condone these atrocities as a result of an investment strategy predicated on diversification.

Therefore, I propose the following strategy be incorporated as amendments to H.B. 1001.

Strategy: Phased Divestment of Maryland State Retirement and Pension Funds from Companies
Doing Business with the Sudanese Government

- As of January 31, 2006, the MSRPS owned over \$25 billion in several portfolios that could be affected by this bill. These portfolios are contained in several business sectors, the largest of which are Aerospace and Defense/Industrials, Communications/Information Technology, and Oil and Gas/Energy.
- By letter dated March 20, 2006, I have requested that MSRPS immediately begin divesting Maryland pension funds from companies doing business with the Government of Sudan in those larger business sectors which, as advised by MSRPS, would result in billions of dollars being divested from the fund. As with any investment portfolio, the numbers are fluid and can change as market conditions change in the various sectors. However, a snapshot of MSRPS investments as of January 31, 2006, show an initial divestment of approximately \$1.8 billion of stock holdings representing 5.0% of the fund's total shares as follows:

Business Sector Impact

▪ Aerospace and Defense/Industrials	1.5%
▪ Communications	0.5%
▪ Oil and Gas/Energy	<u>2.9%</u>
▪ <u>Total Shares Affected</u>	<u>5.0%</u>

- MSRPS as a parallel strategy should move immediately to monitor future investment decisions to ensure that no new business is conducted with the Government of Sudan.
- MSRPS would be responsible for monitoring the tumultuous domestic situation in Sudan. If the humanitarian conditions in Sudan do not improve within one year, all remaining Maryland funds should be divested from industries that are profit centers for the Sudanese government.

As MSRPS begins to assess and manage potential risks associated with divestment, legislative and executive leadership must also be prepared to respond with clarity of purpose, speed and flexibility. H.B. 1001 is the first important step of many we must take together in response to the genocide of the innocents. This is a time of unprecedented challenge and opportunity for the State of Maryland. Divestment is no panacea for the horrors being committed in Sudan, but it is one way in which Maryland can say “no more” and stand with her sister States of New Jersey and Illinois on the right side of history.

Thank you for the opportunity to address this Committee.